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**COUNTY OF YUBA**  
**MANAGEMENT REPORT**  
**FOR THE YEAR ENDED**  
**JUNE 30, 2009**

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# COUNTY OF YUBA

## Management Report For the Year Ended June 30, 2009

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GALLINA<sup>LLP</sup>

CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Board of Supervisors  
County of Yuba  
Marysville, California

In planning and performing our audit of the basic financial statements of the County of Yuba (County) as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We considered the following deficiency to be a material weakness in internal controls as reported within the Schedule of Findings and Questioned Costs of the Single Audit report:

Finding 09-FS-1: Material Weakness: Trust Funds.

We previously reported on the County's internal control in our report dated April 1, 2010. A separate report dated April 1, 2010, contains our report on the significant deficiencies and material weaknesses in the County's internal control and identified above. This letter does not affect our report dated April 1, 2010, on the financial statements of the County of Yuba.

However, during our audit and in prior year audits, we became aware of opportunities to strengthen internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

This report is intended for the use of management, the Board of Supervisors, management and officials of the federal and state grantor agencies.

We thank the County's staff for its cooperation during our audit.

A handwritten signature in black ink, appearing to read "Gallina LLP", is written in a cursive style.

Roseville, California  
April 1, 2010

## **COUNTY OF YUBA**

### **Management Report Required Communication For the Year Ended June 30, 2009**

#### **The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated June 10, 2009, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

#### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 10, 2009.

## COUNTY OF YUBA

### Management Report Required Communication For the Year Ended June 30, 2009

#### **Qualitative Aspects of Accounting Practices**

##### *Significant Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

##### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Value of infrastructure contributed by developers: management's estimate is based on the length of road contributed multiplied by the estimated cost per mile. We tested a sample of roads to determine the methodology was consistent and reasonable.
- Actuarial valuations of risk management liability: Management's estimate is derived from actuarial valuations obtained from experts. We agreed the risk management liability reported in the financial statements to those reported in actuarial reports prepared and issued during the year being audited.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial, and communicate them to the appropriate level of management. The following summarizes uncorrected misstatements. Management has determined that their effects are immaterial, both individually and in the aggregate to the financial statements taken as a whole.

- To recognize interfund receivable and payable of \$282,267 for employee costs between departments and funds.

## **COUNTY OF YUBA**

### **Management Report Required Communication For the Year Ended June 30, 2009**

- To adjust the County's investment pool to market value. Market value was 100.46% of carrying value.

The following material misstatements detected as a result of audit procedures were corrected by management:

- Receivables were overstated by \$849,332. The Department incorrectly requested accrual of revenue pertaining to the subsequent fiscal year.
- Accounting standards require the financial statements include a liability representing the estimated amount of claims likely to exist against the County's self-insurance program. An actuarial study determined the amount to be \$869,000 at June 30, 2009. This liability was not recorded on the County's general ledger.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. While the County disagreed on whether to include the financial statements of the Yuba County Water Agency (Agency) with the County as a blended component unit, Management resolved this issue by agreeing to include the Agency in the County's financial statements so that an unqualified opinion on the County's financial statements in accordance with Generally Accepted Accounting Standards could be issued.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter.

#### **Management Consultations with Other Independent Auditors**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## **COUNTY OF YUBA**

### **Management Report Required Communication For the Year Ended June 30, 2009**

#### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In the course of our audit, we identified the following deficiency as a material weakness in internal controls as reported within the Schedule of Findings and Questioned Costs of the Single Audit Report:

Finding 09-FS-1: Material Weakness: Trust Funds



## COUNTY OF YUBA

### Management Report – Current Year Comments For the Year June 30, 2009

#### USE OF MISCELLANEOUS REVENUE ACCOUNT

##### Criteria

Revenues should be presented by source in sufficient detail to be meaningful.

##### Condition

The County's use of the miscellaneous revenue account includes revenues generated from other sources such as charges for services and intergovernmental revenues. During the performance of nonattest services to prepare the County's financial statements, we proposed, with management oversight, the following reclassifications of miscellaneous revenues so that revenues in the County's financial statements would be presented in sufficient detail so as to be meaningful as required by accounting standards:

General Fund	\$ 395,964	Charges for services and intergovernmental revenues
Special Revenue Funds	895,075	Charges for services and intergovernmental revenues
Trust funds reclassified as general fund and special revenue fund activity and reported as unearned revenues	1,924,757	Unearned revenues
Internal Service Funds	2,434,511	Charges for services

##### Cause

For some funds, the County's chart of accounts is not sufficiently detailed or includes all of the accounts necessary to adequately classify all revenues by type as with some trust funds that are that include accounts for interest and miscellaneous revenues only. For the County's operating funds, revenues are posted to an all-inclusive miscellaneous revenue account because:

- There is no account in the chart of accounts within the appropriate type of revenue source which matches the revenue transaction being posted.
- There is a lack of information at the time of the transaction to accurately determine the type of revenue source.
- There is a lack of guidance from which to accurately determine the proper revenue account.

## COUNTY OF YUBA

### Management Report – Current Year Comments For the Year June 30, 2009

#### USE OF MISCELLANEOUS REVENUE ACCOUNT (continued)

##### Effect of Condition

The level of detail for classifying transactions should be sufficiently categorized so as to be meaningful to management in making decisions. When charges for services or intergovernmental revenues, both significant revenue sources, are combined with miscellaneous revenues, the resulting balance becomes meaningless.

##### Recommendation

We recommend the following courses of action:

- Modify each fund's chart of accounts pertaining to revenues so as to capture a majority of its revenue sources within the appropriate type of revenue source for financial reporting purposes.
- Adopt and publish written guidance that ensures the accurate classification of revenues by type of revenue source.
- Periodically review transactions posted to miscellaneous revenue sources to ensure that revenues for other types of revenues such as charges for services or intergovernmental revenues are reclassified to the appropriate revenue accounts.

##### Management Response

The Auditor-Controller will initiate a detail evaluation of these recommendations with County Administration, departments, and the independent auditors to determine the extent to which the individual recommendations will be implemented.

## COUNTY OF YUBA

### Status of Prior Management Report Comments As of June 30, 2009

Recommendation	Status/Comment
<b>Year end Closing Procedures</b>  We recommend the closing process be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due.	Alternative Procedures implemented
<b>Journal Entry Process</b>  We recommend the County implement the use of a standard journal entry form, available in electronic format and requiring all department personnel to complete it in cases where corrections to accounts are required.	Not implemented
<b>Centralized Purchasing System</b>  We recommend the County explore the capabilities of its current accounting system to determine if implementing a centralized purchasing module or system is feasible.	The Auditor-Controller believes that the cost of implementation exceeds benefits at this time
<b>Purchasing Card System</b>  We recommend the County explore the use of a purchasing card system to improve the efficiency of your purchasing procedures and to lower the over all costs to process smaller dollar amount purchases.	Implemented
<b>Review of Payroll Input Prior to Processing Paychecks</b>  We recommend that supervisory staff not involved in the data entry of payroll transactions approve and authorize this before submitting the information to the payroll vendor.	Implemented
<b>Use of Miscellaneous Revenue Account</b>  We recommend revenue sources which are the result of providing County services be classified to accounts other than miscellaneous revenues.	Not implemented See current year comment and management's response

## COUNTY OF YUBA

### Status of Prior Management Report Comments As of June 30, 2009

Recommendation	Status/Comment
<b>Update Road Inventory Records</b>  We recommend the Public Works department assign staff responsible for completing physical counts of inventory items at least annually at or near June 30 <sup>th</sup> of each year and that this information be submitted to the Auditor-Controller's Office in sufficient time to record adjustments prior to closing the books for the year.	Implemented
<b>Capital Asset Capitalization Threshold</b>  We recommend the County consider increasing the capitalization threshold to no less than \$5,000 for any individual item as recommended by the Government Finance Officer's Association	Not implemented Board of Supervisors has adopted a lower threshold for accountability purposes
<b>Capital Asset Purchasing Policy</b>  We recommend the County implement a written capital asset purchasing policy designed to control and account for the County's property and equipment.	In process
<b>Consistent Use of Capital Outlay Accounts</b>  We recommend that account element 60 be used to only record items meeting the definition of a capital asset and reconcile this account with the additions posted to the County's fixed asset management system.	Alternative procedures implemented
<b>Capital Asset Retirements</b>  We recommend the County work with the software vendor to create a report of the capital asset retirements within a given period of time	Not implemented No viable option exists in the software at this time
<b>Capital Assets Belonging to the Courts</b>  We recommend removing all capital assets where title has been vested to the Courts System.	Implemented

## COUNTY OF YUBA

### Status of Prior Management Report Comments As of June 30, 2009

Recommendation	Status/Comment
<b>Reconcile Capital Asset Records to the General Ledger</b>  We recommend the County reconcile the capital asset balances and capital asset purchases in the general ledger to the balances and transactions included in the County's fixed asset database.	Implemented
<b>Stale Dating of Outstanding Warrants</b>  We recommend the County consider changing its policy to stale date warrants after six months.	Not implemented The Auditor Controller's Office reviews the outstanding warrants list every six months to identify potential stale dated warrants.